



ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson
Director*

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, February 22, 2013
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Mike Smarik, Vice-chair of the ASRS Board, called the meeting to order at 8:32 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Mike Smarik, Vice-chair
Mr. Tom Connelly
Professor Dennis Hoffman
Mr. Kevin McCarthy
Mr. Brian McNeil
Mr. Jeff Tyne (arrived at 8:41 A.M.)

Absent: Mr. Tom Manos, Chair

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the January 25, 2013 Public Meetings of the ASRS Board

Motion: Professor Dennis Hoffman moved to approve the minutes of the January 25, 2013 Public Meetings of the ASRS Board. Mr. Tom Connelly seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 2 excused, and 2 vacancies, the motion was approved.

3. Presentation, Discussion and Appropriate Action Regarding the 2013 Legislative Session

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, noted Professor Dennis Hoffman, Mr. Kevin McCarthy, Mr. Brian McNeil, and Mr. Tom Connelly have been nominated as ASRS Board Trustees. Ms. Sorensen said Professor Hoffman, Mr. McCarthy, and Mr. McNeil are up for a Senate hearing next week.

Ms. Sorensen addressed the Board regarding ASRS 2013 legislative initiatives and legislative proposals by other organizations that affect the ASRS. Ms. Sorensen presented the bill tracker, summarizing ASRS 2013 legislative initiatives, including:

- Adjusting the amortization period
- Clarifying a provision of the new spousal consent law
- Providing enhanced member identity security
- Permitting the ASRS to offer a self-insured health insurance program
- Eliminating Permanent Benefit Increases for new members
- Redesigning non-retired survivor benefits
- Modifying Long Term Disability Plan provisions for new disabled members

In addition, Ms. Sorensen provided information about initiatives proposed by others that impact the ASRS, including that HB2006 (ASRS, political subdivision entities) was held in committee, and is therefore likely dead; HB2294 (S/E: public pensions; court commissioners) passed committee; HB2524 (return to work; compensation limit) failed in committee, and is therefore likely dead; HB2562 (public retirement systems; ineligible employees) passed committee, but was still being negotiated by various stakeholder groups; HB 2608 (EORP; closure; defined contribution) passed committee; and that HCR2005 (public retirement systems) was never scheduled for a committee hearing, and is therefore likely dead.

Mr. Jeff Tyne arrived at 8:41 A.M.

Member of the public, Dr. Letson, requested to speak. He presented his views regarding the possible elimination of Permanent Benefit Increases for future employees.

4. Presentation, Discussion and Appropriate Action Regarding the New Five-Year ASRS Strategic (and Operations) Plan

Mr. Matson introduced the topic. He noted the importance of the Vision for the ASRS programs to be sustainable, and for the agency to be a top performing benefit plan administrator in the area of core member services, operational effectiveness, investment performance, and funded status.

Mr. Matson presented the Strategic Plan values and discussed the priorities:

- Plan sustainability
- Risk management
- Investment organization and strategies
- Customer service
- Productivity

A Trustee commented he would also like included under the priority of Productivity the maximization of human capital. Mr. Matson noted a goal of the ASRS is to maximize productivity and to be in the bottom 25% for costs, and the top 75% for service compared to other public pension funds.

Trustees commented the Plan is a very helpful document. They expressed the desire to see the Plan presented at the next Board meeting, for possible approval when the Chair would be in attendance.

5. Presentation, Discussion and Appropriate Action Regarding ASRS Investment Program Updates

Mr. Gary Dokes, Chief Investment Officer, and Mr. David Underwood, Assistant Chief Investment Officer, addressed the Board regarding the ASRS Investment Program Updates for the period ending January 31, 2013, highlighting specific areas of interest and concern. The format of this report was recently revised. Trustees commented they found the new report helpful.

Mr. Dokes discussed the Investment Management Division's Investment House Views, noting they are fundamental in terms of how the portfolio is positioned. He presented the tactical portfolio

positioning update, strategic asset allocation policy implementation update, and provided an update on recent Investment Management Division activities.

6. Presentation, Discussion and Appropriate Action Regarding Independent Reporting, Monitoring, and Oversight of the ASRS Investment Program

Mr. Allan Martin, Partner, NEPC, addressed the Board regarding NEPC's independent reporting, monitoring, and oversight of the ASRS Investment Program. This report was formerly called the Total Fund Performance Overview; the format was recently revised.

The Total Fund Performance for the period ending December 31, 2012 is:

	Quarter	1 Year	3 Years	5 Years	10 Years	Since Inception (6/30/75)
Total Fund	2.0%	13.4%	9.5%	3.2%	7.7%	9.8%
Interim SAA Policy	2.0%	14.4%	9.4%	2.9%	7.4%	9.6%
Excess Return	0.0%	-1.0%	0.1%	0.3%	0.3%	0.2%

*Interim SAA Policy: 26% S&P 500/6% S&P 400/6% S&P 600/14% MSCI EAFE/3% MSCI EAFE Small Cap/6% MSCI Emerging Markets/5% Russell 2000 (lagged one quarter)/18% Barclays Capital Aggregate/5% Barclays Capital High Yield/3% S&P/LSTA Levered Loan Index + 250 basis points (lagged one quarter)/6% NCREIF ODCE (lagged one quarter)/4% Dow Jones/UBS Commodities Index.

7. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Matson presented the Director's Report. He had no comments and there was no discussion.

8. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Operations and Audit Committee Meetings

Mr. Jeff Tyne, Operations and Audit Committee (OAC) Chair, noted the following topics are to be discussed at the upcoming OAC meeting: strategic planning and the Board's role in such.

9. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming External Affairs Committee Meetings

Mr. Kevin McCarthy, External Affairs Committee (EAC) Chair, said the EAC will discuss progress of legislative initiatives. He noted the next External Affairs Committee Meeting will be held on March 8, 2013, and meetings have been moved to the second Friday of the month.

10. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Investment Committee Meetings

Mr. Tom Connelly, Chair, Investment Committee (IC), provided an update on the upcoming IC meeting, noting the following topics are to be discussed: strategic objectives and a review of reporting documents. Mr. Gary Dokes, Chief Investment Officer, said the equity class will be reviewed in depth. The next Investment Committee Meeting will be held on April 22, 2013.

11. Board Requests for Agenda Items

No requests were made.

12. Call to the Public

No additional members of the public requested to speak.

13. Presentation, Discussion and Appropriate Action Regarding the *Pendergast v. Arizona State Retirement System* Decision and Legal Advice Regarding the Decision and Appeal Options

Motion: Mr. Tom Connelly moved to go into executive session. Professor Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

14. Presentation, Discussion and Appropriate Action with Respect to the 2012 Review of the Director of the ASRS

This item was postponed to the next regular meeting.

15. The next ASRS Board meeting is scheduled for Friday, March 22, 2013, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

16. Adjournment of the ASRS Board

The Board adjourned at 10:58 A.M. to go into executive session in the 14th floor Conference Room.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Paul Matson
Director

Date